

Message Text

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SUBJ: IMF STANDBY FOR 1976: ALL NOT GOING WELL?

1. SUMMARY. ARRIVAL OF IMF TEAM FOR ARTICLE XIV CONSULATIONS HAS SPARKED RUMORS OF TOUGH CONDITIONS FOR A STANDBY. EMBASSY WOULD APPRECIATE ANY INDICATIONS DEPARTMENT MAY HAVE TO CONFIRM THIS ALLEGEDLY STRICTER ATTITUDE. END SUMMARY.

2. WITH THE ARRIVAL OF THE ADVANCE IMF PARTY, AND SENIOR ADVISOR SANSON SOON TO FOLLOW, THE EMBASSY HAS BEEN PICKING UP HINTS FROM SEVERAL SOURCES THAT GOC MAY HAVE A TOUGH TIME NEGOTIATING 1976 STANDBY. AN OAS TECHNICAL ADVISOR TO CENTRAL BANK TOLD EMBOFF THAT CENTRAL BANK TECHNICIANS ARE VERY NERVOUS ABOUT THE SIGNALS THEY

ARE GETTING FROM THE IMF. FOR EXAMPLE, THE IMF WAS IN THIS PRE-NEGOTIATION PHASE TALKING ABOUT A FURTHER REDUCTION IN REAL WAGES AS A POSSIBLE CONDITION FOR A STANDBY. IMF ADVISOR KREIS HAS INDICATED IMF DISSATISFACTION WITH REVENUE COLLECTION PROCEDURES. SIMILARLY WITH RECENT REPLENISHMENT OF SAVINGS AND LOAN ASSOCIATIONS WITH CENTRAL BANK MONEY. THESE FUNDS, HE NOTED, PASSED DIRECTLY INTO CIRCULATION, WITH STRONGLY INFLATIONARY EFFECTS.

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3. MOST SERIOUS CRITICISM OF GOC POLICY HAS BEEN KREIS' FLAT STATEMENT THAT IMF IS NOT INCLINED TO FAVOR STANDBY UNLESS GOC MAKES AT LEAST AN EFFORT TO RESCHEDULE THE RENEGOTIABLE PORTION OF ITS DEBT. IMF VIEW IS THAT GOC CANNOT SIMULTANEOUSLY MEET ALL ITS 1976 DEBT OBLIGATIONS AND FULFILL IMPORT AND OTHER CONDITIONS NECESSARY TO ECONOMIC STABILIZATION. KREIS FEELS THAT PRESENT CAUAS POLICY WOULD ENSURE A LEVEL OF IMPORTS SO LOW AS TO RETARD ECONOMIC GROWTH NOT ONLY THIS YEAR, BUT FOR SEVERAL YEARS TO COME. IN KREIS' VIEW, AT LEAST AN ATTEMPTED RESCHEDULING, EVEN IF NOT SUCCESSFUL, WOULD BE A SINE QUA NON TO A STANDBY.

4. READINESS OF GOC TO ACCEPT IMF REQUIREMENTS WILL, OF COURSE, VARY WITH THE SPECIFIC REQUIREMENT. CENTRAL BANK VP ALVARO BARDON, AFTER ACKNOWLEDGING THAT IMF WOULD PROBABLY RAISE ALL THESE ISSUES, CHARACTERIZED THEM AS DISCUSSION POINTS ONLY. THE IMF WOULD BE FLEXIBLE. NOR, HE SAID, WERE ALL OF THEM MATTERS OF DISAGREEMENT. FOR EXAMPLE, THE GOC WAS PREPARED TO AGREE WITH THE IMF THAT IT WAS LOSING REVENUE FROM TAX EVASION. BARDON POINTED TO AN ARTICLE IN EL MERCURIO DESCRIBING A CRACKDOWN BY REVENUE OFFICERS ON FIFTY-FIVE COMPANIES, AND INDICATED THAT A SIMILAR CRACKDOWN WOULD TAKE PLACE WITH REGARD TO INDIVIDUALS. IN OTHER CONVERSATIONS, HOWEVER, BARDON HAS WONDERED HOW THE GOC COULD MEET ALL THE LIKELY STANDBY CONDITIONS OF THE IMF, GIVEN HOW HARD PRESSED IT HAD BEEN IN THE PAST YEAR TO MEET ITS INTERNATIONAL OBLIGATIONS. MOREOVER, SOME CENTRAL BANK TECHNICIANS CONSIDER THE LIKELY BUNDLE OF IMF CONDITIONS AS UNREASONABLE. THEY INTERPRET IMF TOUGHNESS AS AN INDICATION THAT THE IMF, FOR QUOTE POLITICAL UNQUOTE REASONS, WOULD RATHER NOT GRANT CHILE A STANDBY.

5. A MAIN AREA OF CONTENTION WILL CERTAINLY BE THE NEED AND POSSIBILITY OF RESCHEDULING. IN A RECENT LUNCH WITH AMBASSADOR AND ECONOMIC COUNSELOR, CAUAS REITERATED HIS OPPOSITION TO ANY SUCH ATTEMPT, EVEN THOUGH QUOTE EVERYONE UNQUOTE WAS URGING HIM TO TRY IT. AS A PRACTICAL MATTER, IN HIS VIEW, IT WOULD NOT BE POSSIBLE. IT WOULD ONLY MEAN PLACING CHILE BETWEEN AN UPPER AND LOWER MILLSTONE IN PRIS, WHERE CHILE'S FINANCIAL REPUTATION, OTHERWISE GOOD, WOULD BE GROUND DOWN FOR POLITICAL REASONS.

6. COPPER PRICES, CONTINUED CAUAS, WOULD SURELY BEGIN TO RISE
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WITHIN THE NEXT TWO YEARS. MEDIUM-TERM LENDING BY NEW YORK BANKS WOULD HELP TIDE CHILE OVER UNTIL THEN. NOR WOULD PAYMENT OF THE FULL \$730 MILLION (CHILE'S TOTAL 1976 DEBT OBLIGATIONS) CUT THAT MUCH INTO NECESSARY IMPORTS. BECAUSE OF THE REQUIREMENT THAT IMPORTS BE LICENSED SIX MONTHS IN ADVANCE, THE GOC HAS ALREADY BEEN ABLE ACCURATELY TO FORECAST THE LEVEL OF IMPORTS THROUGH JUNE. THE LEVEL IS EXPECTED TO BE "MODERATE" BEYOND ORIGINAL EXPECTATION, GIVING THE GOC A 15 PERCENT LEEWAY FOR

THE LATTER HALF OF THE YEAR TO COVER DEBT REPAYMENTS WITHOUT CAUSING UNDUE HARDSHIP FROM IMPORT REDUCTION, ACCORDING TO CAUAS.

7. COMMENT. HAVING BEEN FORCED TO ESCHEW A RESCHEDULING THIS YEAR, CAUAS HAS NO CHOICE BUT TO PUT THE BEST FACE POSSIBLE ON LIKELY EFFECTS ON THE CHILEAN ECONOMY OF DEDICATION OF 40-45 PERCENT OF ITS IMPORT REVENUES TO PAY PAST DEBTS, WITH RESTRICTIONS ON IMPORTS ALREADY CAUSING SEVERE DECLINES IN PRODUCTIVITY AND INCOME. OUR BEST JUDGMENT SO FAR, CAUAS' PERENNIAL OPTIMISM NOTWITHSTANDING, IS THAT FURTHER IMPORT REDUCTIONS MIGHT WELL BE NECESSARY. WERE CAUAS' OPPOSITION TO SEEKING RESCHEDULING TO BRING HIM INTO CONFRONTATION WITH IMF, THE LOSS OF A STANDBY AND POSSIBLE EFFECTS OF THAT ON NEW YORK BANK LENDING WOULD HAVE TO RESULT IN VERY SERIOUS CUTBACKS. A KEY ELEMENT THEREFORE IS THE EXTENT TO WHICH LOCAL APPREHENSIONS CONCERNING IMF INTENTIONS MIGHT OR MIGHT NOT BE CORRECT. WE WOULD APPRECIATE ANY LIGHT DEPARTMENT MIGHT SHED ON IMF INTENTIONS.
POPPER

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